

GLOBAL RAILWAY INDUSTRIES LTD.

BRINGING COMPANIES TOGETHER
TO MEET THE GROWING DEMANDS OF
THE RAIL FREIGHT & TRANSIT INDUSTRIES

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2003 ANNUAL REPORT TO SHAREHOLDERS

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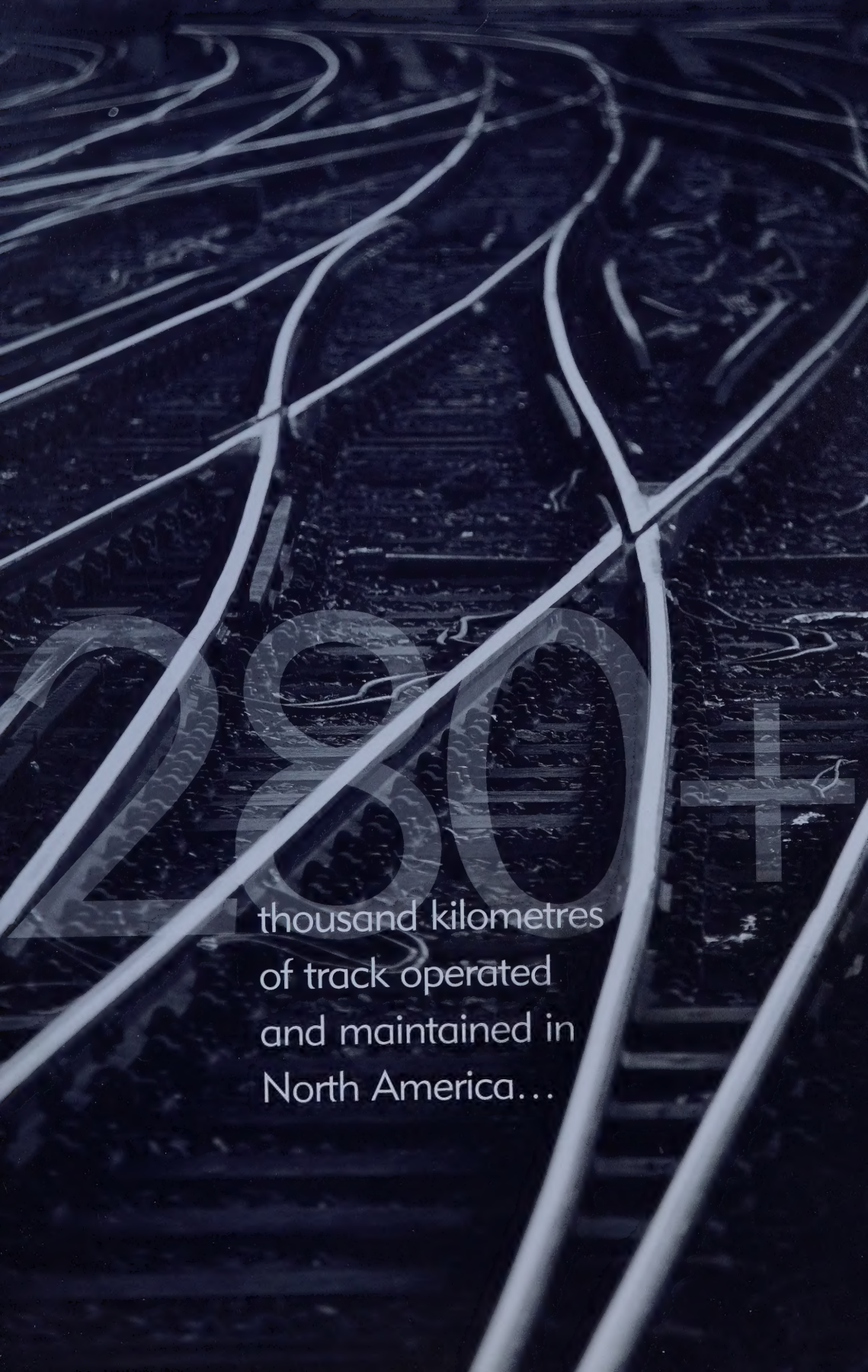


Global Railway Industries Ltd. is North America's fastest growing manufacturer of railway equipment. The wide range of quality products and expertise help our customers run and maintain their railway operations efficiently.

The Company adds value for its shareholders by restructuring and recapitalizing railway supplier operations to better serve rail freight and transit carriers. Global Railway Industries Ltd. is a public company whose shares are listed for trading on the Toronto Stock Exchange under the trading symbol "GBI".


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280+

thousand kilometres
of track operated
and maintained in
North America...

An aerial photograph of a freight train consisting of several black boxcars. The cars are arranged in a line, and the image is taken from a high angle, showing the tops and sides of the cars. The cars have white text markings on their sides. A large, semi-transparent graphic of the number '720' is overlaid on the top half of the image. The text 'increase in industry backlog of undelivered new freight cars...' is positioned in the center-right area, partially overlapping the train cars.

increase in
industry backlog
of undelivered
new freight cars...

F
MI LW
156 069
CAPV 150000
XP

F
MI LW
156 056
CAPV 150000
150000
150000
150000
XP
NEW 7-25

F
MI LW
156



516
million rail carloads
reported for first three
months of 2004

KEY CORPORATE EVENTS



RAFNA INDUSTRIES LTD.

www.rafna.com

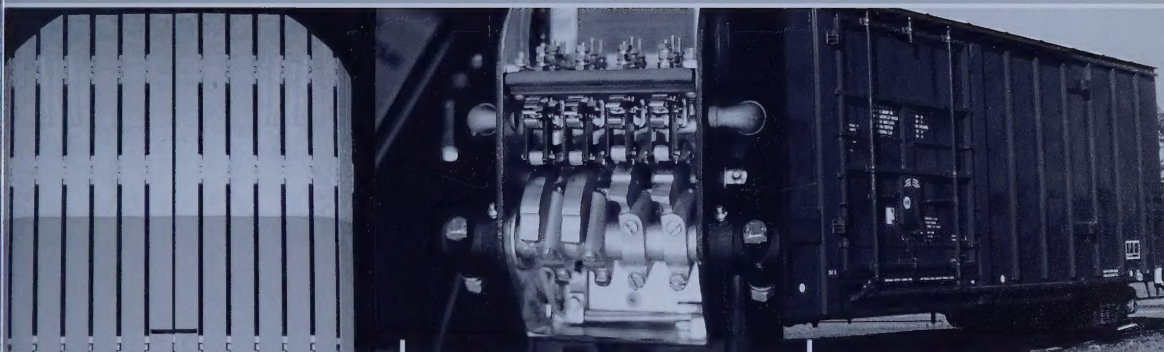
Acquired in February 1999, Rafna Industries Ltd. is a leader in the design, manufacturing, supply and installation of railgear equipment. Railgear is a guide wheel system, which allows standard road service vehicles to be driven directly on rail lines. The Company equips light, medium, and heavy-duty trucks with hydraulically controlled railgear mounted on the under carriage of a vehicle's chassis. The railgear can be raised and lowered rapidly to convert the service vehicles from highway to rail travel. Rafna is located in Montreal, Quebec and has been operating since 1980.

BACH-SIMPSON CORPORATION

www.bach-simpson.com

Bach-Simpson Corporation was acquired in May 2001 and is located in London, Ontario. It is a leading supplier of electronic instrumentation and control systems for the rail and transit markets. Known for its quality and reliability, the Company offers state-of-the-art products tailored to its customer's needs. The Company has been designing and manufacturing Vehicle Monitoring Systems and Event Recorders for over 15 years. Data gathered and/or recorded is used for accident investigation and the optimization of train handling, vehicle performance, fuel conservation and preventative maintenance programs.

1998	1999	2000
JUNE Began trading on ASE	FEBRUARY Acquisition of Rafna Industries Ltd.	DECEMBER Completed expansion of Rafna's production facility
		JULY Closed \$2.5 million financing with Priveq II Limited Partnership



PRIME RAILWAY SERVICES
www.primerailway.com

Acquired in October 2002, Prime Railway Services designs and manufactures rail car doors and replacement parts for the rail freight and transit market. The Company is positioned as the only Canadian based rail car door and replacement parts manufacturer with excellent growth potential. Prime Railway Services was established in 1988 and is located in Courtice, Ontario.

G&B SPECIALTIES, INC.
www.gandbspecialties.com

G&B Specialties, Inc., located in Berwick, Pennsylvania was acquired in May 2003, and has been manufacturing quality products for the railroad industry since 1979. The Company designs, manufactures and markets innovative, state of the art railroad track and signal products for use by freight and passenger railroads. Its main product line includes power switch layouts, which it supplies to most major railroad and transit operations in North America.

YSD INDUSTRIES (2004) INC.
www.ysdindustries.com

YSD Industries (2004) Inc., located in Youngstown, Ohio, was founded in 1924 as The Youngstown Steel Door Company. YSD is one of the largest railcar door and related parts manufacturer in the US. The Company sells its products into the US new rail car market, primarily to OEM's and US freight carriers. Global Railway Industries Ltd. acquired the assets of YSD Industries, Inc. in April 2004.

MAY

Acquisition of
Bach-Simpson
Corporation

2001

MARCH

Closed \$7.5
million private
placement

2003

MARCH

Acquisition
of the assets
of YSD
Industries, Inc.

2004

FEBRUARY

Received approval
for trading of
shares on the
Toronto Stock
Exchange

2002

OCTOBER

Acquisition of
Prime Railway
Services

MAY

Acquisition
of G&B
Specialties,
Inc.

JANUARY

Closed \$12
million private
placement

REPORT TO SHAREHOLDERS

THE ACQUISITION OF G&B IN 2003 FURTHER DIVERSIFIED GLOBAL ALONG PRODUCT LINES AND CUSTOMER BASE AND HAS DOUBLED THE COMPANY IN TERMS OF EMPLOYEES, ASSETS, REVENUES AND PROFITABILITY.

MAJOR HIGHLIGHTS OF 2003

The year was very successful for Global, its employees and its shareholders. Throughout the year we were faced with a slow economy and a strengthening Canadian dollar both of which had a significant negative impact on our financial results. Notwithstanding this, we still managed to report record revenue and earnings growth.

By far the most important corporate event during the past year was the acquisition of G&B Specialties Inc. ("G&B") on May 1, 2003. Based in Berwick, PA, G&B designs, manufactures and markets railroad track and signal products for use on freight and passenger railroads. The acquisition of G&B further diversified Global along product lines and customer base and has doubled the company in terms of employees, assets, revenues and profitability. G&B also represents Global's first manufacturing plant located in the United States.

Keeping pace with growth from our acquisition in 2003 was continuation of organic growth from our three existing subsidiaries Rafna Industries, Bach-Simpson and Prime Railway Services, which contributed significantly to our overall financial results.

Global's growth would not be possible without the strong commitment from all our employees who continue to succeed and adapt to challenging business environments year in and year out.

OUTLOOK

Our business model hasn't changed since we started in business seven years ago and it is predicated on discipline. That is, we will maintain our disciplined acquisition strategy, focusing on strengthening our positions in the markets we currently serve through acquisition, and also a disciplined operating philosophy committed to flexible, low cost efficient manufacturing.

Keeping to our plan, on April 5, 2004 we announced that Global completed the acquisition of the manufacturing assets of YSD Industries, Inc. ("YSD"). YSD manufactures rail car doors and parts primarily for the new railcar market. YSD compliments our operations at Prime Railway Services both along product lines as well as geographically. With this transaction, Global has solidified its position in the North American rail car door market, it has diversified its rail car door product line, and it has added significant railway and manufacturing experience through the employees at YSD.

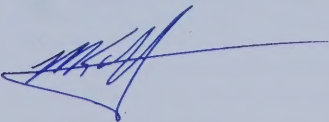
The growth objective for each of our operating subsidiaries is still to become the dominant low cost supplier in each of the four markets we currently operate in. This growth will be realized through a combination of acquisition and organic growth. The YSD acquisition is an excellent example of the growth potential that exists in the markets Global currently serves.

From a financial perspective, Global has significant cash available to finance additional acquisitions and fund organic growth in 2004 and beyond.

From a management perspective, to continue to grow at the rate experienced in the past, we are in the process of adding operations and financial managers to our team.

We believe Global has just started to hit its stride and that our operating and acquisition philosophy will continue to create shareholder value in 2004 and beyond.

Yours truly,

A handwritten signature in blue ink, appearing to read 'Mike Kohut', with a long horizontal flourish extending to the right.

Mike Kohut
President & CEO

May 19, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") supplements the consolidated financial statements and related notes for the year ended December 31, 2003. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

BUSINESS PROFILE AND STRATEGY

Business Profile

Global Railway Industries Ltd ("Global" or "the Company") manufactures railway maintenance equipment primarily in North America for the rail freight and transit carriers.

Global conducts its operations through five operating subsidiaries, Rafna Industries Ltd., Prime Railway Services, Bach-Simpson, G&B Specialties Inc. and YSD Industries (2004) Inc. Global acquired YSD Industries (2004) Inc. effective April 5, 2004.

Through its five wholly owned subsidiaries Global manufactures rail gear, event recorders, freight car doors, parts and signal and track products.

Strategy

Global's goal is to make its customer's job easier by supplying well designed, high quality products to its customer in a timely fashion.

To do this, Global is consolidating companies in specific niche product markets that are underserved in the North American rail supply industry.

FINANCIAL RESULTS

Global's net income for the year ended December 31, 2003 was \$2,702,275 up from \$1,484,457 in 2002. The majority of the increase in net income is a result of the acquisition of G&B

Specialties Inc. effective May 1, 2003 and the inclusion of a full year of results from Prime Railway Services. Prime was acquired effective October 2002 and the comparative year only includes three months of operations from Prime.

Fluctuations in the value of the Canadian dollar affect Global's results because U.S dollar denominated revenues and expenses are translated into Canadian dollars. A stronger Canadian dollar reduces U.S dollar denominated revenue and expenses. It also reduces net income because a higher percentage of revenues than expenses is generated in U.S dollars.

To mitigate the effect of the strengthening Canadian dollar on profitability, Global converted all of its debt into U.S dollar denominated debt during the year. As a result, Global has recorded a \$758,234 gain on the debt for the year ended December 31, 2003.

REVENUES

Global's revenues are derived primarily from the sale of event recorders, rail gear, track switching products and freight rail car parts. As Global increases its market share in the markets it currently serves and as it enters new product markets, Global's revenue base will become more stable and diverse.

Total revenues from the four product markets that Global currently serves were \$26,014,652 in 2003 increasing from \$12,618,326 in 2002.

Rafna product revenue in 2003 was \$5,740,000 in 2003 versus \$5,716,000 in 2002. Rafna realized approximately 25% volume growth in 2003 however this was completely offset by the strengthening Canadian dollar during the year.

Bach product revenue in 2003 was \$6,043,000 versus \$6,296,000 in 2002. Bach also recognized strong volume growth in 2003. This volume growth was substantially offset by the strengthening Canadian dollar.

Prime had product revenues of \$4,400,000 in 2003 versus \$2,892,000 in 2002. Prime witnessed substantial product volume growth in 2003. Prime was acquired by Global in October 2002 and the results of operations have been included since that time.

G&B Specialties Inc. had product revenues of \$9,831,000 in 2003. G&B was acquired effective May 1, 2003 and the 2003 revenues represent 8 months of operations. The majority of G&B's business is carried out in the United States. As a result of the strengthening Canadian dollar revenues from G&B have been reduced by approximately \$1.6 million as a result of the translation into Canadian dollars and based on the exchange rate in effect on January 1, 2003 versus the average exchange rate realized throughout the year.

OPERATING EXPENSES

Salaries

Salaries include employee wages, salaries, fringe benefits and bonuses paid in the year. In 2003 this expense was \$3,600,563 versus \$2,232,235 in 2002.

The increase in the salaried costs during the year relate to the inclusion of salaried costs from G&B Specialties Inc. for 8 months of operations, the inclusion of a full year of salaried costs from Prime Railway Services versus 3 months inclusion in 2002, the payment of bonuses in certain operations and the cost of living increase given to all employees in the year.

General and Administrative

General and administrative expense includes all administration costs such as legal, accounting, rent, utilities, marketing, investor relations, property tax, insurance and public company listing costs. In 2003 this expense was \$2,564,959 versus \$1,363,323 in 2002.

The increase in general and administrative costs during the year primarily relates to the inclusion of a full year of costs from Prime versus 3 months in 2002, the inclusion of general and administrative costs for an eight month period relating to the acquisition of G&B Specialties Inc., the impact of one time legal and accounting costs incurred for corporate governance and for providing an additional \$150,000 as an allowance for doubtful accounts.

Depreciation and Amortization

Depreciation and amortization represents the charge associated with the use of production machinery and equipment and other depreciable assets. This expense was \$553,721 in 2003 versus \$228,801 in 2002.

The increase in this expense during the year is directly related to the inclusion of a full year of amortization relating to Prime Railway Services versus 3 months in 2002 and to the inclusion of amortization for eight months from the acquisition of G&B Specialties Inc.

Interest Expense

Interest expense includes interest on long term debt, operating loans and capital leases.

Interest expense was \$350,140 in 2003 versus \$105,383 in 2002. The increase in interest expense during the year is primarily related to the increase in debt incurred by Global to purchase G&B Specialties Inc.

Income Taxes

The effective income tax rate for 2003 was 27% versus 31% in 2002. The effective rate decreased due to the unrealized foreign exchange gain in the year.

Earnings per Share

Diluted earnings per share ("EPS") in 2003 were \$0.29 versus \$0.23 in 2002. Diluted EPS is calculated by dividing net income by the weighted average number of shares outstanding, adjusted for outstanding stock options and warrants.

LIQUIDITY AND CAPITAL RESOURCES

Global believes that adequate amounts of cash and cash equivalents are available in both the short term and the long term to provide for ongoing operations and planned growth. Global is not aware of any trends or expected fluctuations in its liquidity that would create any deficiencies. The following discussion of operating, investing and financing activities describes Global's indicators of liquidity and capital resources.

Operating Activities

Cash provided by operating activities was \$3,512,753 in 2003 versus \$244,476 in 2002. The increase over 2002 was due primarily to the increased level of profitability as a result of the inclusion of the operations of Prime Railway Services and G&B Specialties Inc.

There are no specific or unusual requirements relating to Global's working capital. In addition, there are no restrictions on any subsidiary's ability to transfer funds to Global.

Investing Activities

Cash used in investing activities was \$13,392,831 in 2003 versus \$3,609,354 in 2002. The increase in cash used in investing activities relates primarily to the purchase of G&B Specialties Inc. in 2003 for \$12,870,613 versus the acquisition of Prime Railway Services in 2002 for \$3,407,591.

All future capital expenditures are expected to be funded with internally generated cash flow.

Financing Activities

Cash provided by financing activities was \$9,594,489 in 2003 versus \$3,377,993 in 2002. The increase in cash from financing activities over 2002 is related to the issuance of share capital and debt to purchase G&B Specialties Inc. during the year, offset by repayment of long-term debt and the operating loan.

During 2003 Global entered into interest rate swap agreements concurrent with the issue of its senior secured debt. Global fixed the interest rate on approximately USD \$2.8 million of its senior secured debt at 3.28% over its five year term.

Global has available as sources of financing, a \$3.5 million operating loan. Global believes it can raise capital in excess of these amounts, if required to complete any future acquisitions.

Balance Sheet

Assets totaled \$26,316,917 at December 31, 2003 versus \$12,247,978 at December 31, 2002. The increase in assets during 2003 relates primarily to the acquisition of G&B Specialties Inc. for \$12,870,613.

Global's short term liabilities at December 31, 2003 were \$4,131,972 versus \$3,171,353 at December 31, 2002. The increase during 2003 relates primarily to the increase in the current portion of long term debt offset by the decrease in the operating loan during the year.

Long term debt at December 31, 2003 was \$6,219,591 versus \$2,868,394 at December 31, 2002. The increase in long term debt during the year was a result of debt incurred to purchase G&B Specialties Inc.

Global's articles of incorporation authorize for an issuance of an unlimited number of common shares and an unlimited number of preference shares. At December 31, 2003 10,370,672 common shares and no preferred shares had been issued.

BUSINESS RISKS

Limited Financial Resources

The financial resources of the Corporation are not significant, particularly in relation to its competitors. The Corporation's ability to fully exploit the opportunities which it is presented may be dependent upon their ability to obtain additional financing either by debt, equity or other means. There is no guarantee that additional funding will be available.

Dividends

The Corporation has not paid any dividends to date, and the Corporation does not intend to pay dividends in the foreseeable future.

Fluctuating Exchange Rates

A significant portion of the Corporation's projected revenues and expenses may be denominated in U.S. dollars, and would therefore be subject to exchange rate fluctuations. Exchange rates are determined by market factors beyond the control of the Corporation and may vary substantially and have a material adverse effect on the Corporation's results of operation.

Reliance on Management

The success of the business of the Corporation is contingent on the judgment and expertise of the directors and officers of the Corporation.

Dependence on Key Personnel

The business of the Corporation at this time is substantially dependent on the services of certain key personnel. The Corporation does not currently maintain "key man" insurance for any of its key personnel. The loss of their services could have a material adverse effect on the business of the Corporation. The success of the Corporation and its business strategy depends, to a degree, upon the skill and efforts of its management and to its ability to attract and retain qualified management personnel. The Corporation's future expansion plans will also be dependent upon its ability to hire and retain suitably qualified and capable

sales representatives to act on its behalf with respect to the securing of new accounts. The Corporation's ability to acquire appropriately skilled representatives who will be able to achieve the Corporation's sales objectives remains uncertain.

Competition

The Corporation is subject to competition from companies with a broader range of products, greater financial resources and larger marketing capabilities. There can be no assurance that the Corporation will be able to continue to compete successfully with existing competitors or will be able to compete successfully with new competition.

Product Supply

The Corporation has been and may continue to remain reliant upon third party contractors to provide products and services to produce its product and services. The Corporation is therefore exposed to risks associated with the skills, abilities, timeliness, and quality assurance standards utilized by these third parties. In the event that unsatisfactory services are rendered, the recourse available to the Corporation may be limited.

Proprietary Rights

The Corporation has limited registered proprietary rights pertaining to its products. The ability of the Corporation to protect its services or operations from replication by third parties is therefore limited.

Dependence on Customers

Demand for the Corporation's products depends primarily on the level of spending by the major railways. The success of the Corporation is directly related to the strength of its relationships with and the economic success of a small number of its larger customers. Should the relationships of the Corporation with any of its major customers become strained or the profitability of those customers become negatively affected, the profitability of the Corporation may be impacted.

Insurance

A defect in the products manufactured by the Corporation could result in serious personal injury or property damage. Although the Corporation carries a limited amount of liability insurance, it is not fully insured against such risks, nor are all such risks fully insurable.

Future Growth

The Corporation may be subject to growth related risks, including capacity constraints and pressure on its internal systems, controls, including quality controls. The Corporation's ability to manage its growth effectively will require it to continue to hire and train qualified sales representatives, to implement and improve its operational and financial systems and to manage and expand its offices. The inability of the Corporation to deal with its growth could have a material adverse impact on its business, operations and prospects.

Risks Associated With Product Returns

Consistent with industry practice, the Corporation allows customers to return products for warranty repair or replacement or credit. Although the Corporation will provide allowances for anticipated returns, and believes that the policies of the Corporation have resulted in the establishment of allowances that are adequate, there is no assurance that such product returns will not exceed such allowances in the future and as a result will not have a material adverse effect on future operating results. If any of the products distributed by the Corporation prove defective, the Corporation may be required to refund the price of or replace those specific products or all such products previously distributed. Replacement or recall of such products may cause the Corporation to incur significant expenses and adversely affect the reputation of the Corporation and its products.

Management Information System

The Corporation will rely upon the accuracy and proper utilization of a management information system to provide timely distribution services and to track properly its financial information. The occurrence of a significant system failure could have a material adverse effect on the Corporation's operating and financial results.

Other Risks

The success of the Corporation is dependent upon its personnel and key consultants. The unexpected loss or departure of any of the Corporation's key officers, employees or consultants could be detrimental to the future operations of the Corporation. The success of the Corporation's business will depend, in part, upon the Corporation's ability to attract and retain qualified personnel as they are needed, including the retention of its Chief Executive Officer. There can be no assurance that the Corporation will be able to engage the services of such personnel or retain its current personnel.

FORWARD LOOKING INFORMATION

A number of matters discussed in the Management's Discussion and Analysis are not historical or current facts and deal with potential future circumstances and developments and are forward looking statements within the meaning of applicable securities law. Such statements are qualified by inherent risks and uncertainties surrounding future expectations generally, and the Corporation's actual results and experience involving anyone or more of the matters set forth in forward looking statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements for Global Railway Industries Ltd. and all the information in this annual report have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

Systems of internal accounting and administrative controls are maintained by management in order to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that the transactions are authorized, assets are safeguarded and proper records are maintained.

The Audit Committee comprised of a majority of non-management directors, acts on behalf of the Board of Directors to ensure that the management fulfills its financial reporting and internal control responsibilities. In performing its duties, the Audit Committee acts only in an oversight capacity and necessarily relies on the work and assurances of the Company's management and independent auditors, which in their report, express an opinion on the conformity of the Company's annual financial statements to generally accepted accounting principles. In reliance on reviews and discussions with management and the independent auditors, and in light of its roles and responsibilities, the Audit Committee recommended to the Board of Directors and the Board has approved the audited financial statements of the Company for the year ended December 31, 2003.

Global Railway Industries Ltd. auditors have conducted an independent audit of the financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an audit opinion on the consolidated financial statements. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

MIKE KOHUT
President & CEO

AUDITORS' REPORT


To the Shareholders of Global Railway Industries Ltd.

We have audited the consolidated balance sheets of Global Railway Industries Ltd. as at December 31, 2003 and the consolidated statement of earnings and retained earnings, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada.

The comparative figures for December 31, 2002 were reported on by another firm of chartered accountants, who expressed an opinion without reservation in their report dated March 19, 2003.



Chartered Accountants

May 11, 2004

Calgary, Canada

CONSOLIDATED BALANCE SHEETS

DECEMBER 31,	NOTE	2003	2002
ASSETS			
Current			
Cash		\$ 626,926	\$ 912,515
Accounts receivable		3,284,198	2,466,450
Inventories	4	6,812,598	3,820,141
Prepays		238,140	67,647
		10,961,862	7,266,753
Other assets	5	233,726	252,883
Plant and equipment	6	3,810,032	887,341
Goodwill	7	11,311,297	3,756,306
Future income taxes	12	—	84,695
		\$ 26,316,917	\$ 12,247,978
LIABILITIES AND SHAREHOLDERS EQUITY			
Current Liabilities			
Operating loan	8	—	\$ 1,405,032
Accounts payable and accrued liabilities		\$ 1,459,734	766,321
Current portion, long term debt	9	2,672,238	1,000,000
		4,131,972	3,171,353
Future income taxes	12	133,874	—
Long-term debt	9	6,219,591	2,868,394
		10,485,437	6,039,747
SHAREHOLDERS' EQUITY			
Share Capital	10	10,937,259	3,368,354
Cumulative translation adjustment		(647,931)	—
Retained Earnings		5,542,152	2,839,877
		15,831,480	6,208,231
		\$ 26,316,917	\$ 12,247,978
Commitments	15		

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Tim Tycholis
Director

Dale Owen
Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31,	NOTE	2003	2002
Sales		\$ 26,014,652	\$ 12,618,326
Cost of sales		15,933,788	6,521,037
Gross margin		10,080,864	6,097,289
Operating expenses			
Salaries		3,600,563	2,232,235
General and administrative		2,564,959	1,363,323
		6,165,522	3,595,558
Operating income before the following		3,915,342	2,501,731
Depreciation and amortization		553,721	228,801
Interest on long-term debt		350,140	105,383
Interest and bank charges, net		43,440	33,842
Foreign exchange gain		(758,234)	—
Earnings before income taxes		3,726,275	2,133,705
Income taxes	12		
Current		531,000	90,459
Future	—	493,000	558,789
		1,024,000	649,248
Net earnings		2,702,275	1,484,457
Retained earnings, beginning of year		2,839,877	1,355,420
Retained earnings, end of year		\$ 5,542,152	\$ 2,839,877
Earnings per share			
— basic		\$ 0.30	\$ 0.23
— diluted	11	\$ 0.29	\$ 0.23

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,	NOTE	2003	2002
Cash flows provided by (used in):			
Operations			
Net earnings		\$ 2,702,275	\$ 1,484,457
Items not affecting cash			
Depreciation and amortization		553,721	228,801
Future income taxes		493,000	558,789
Foreign exchange gain		(730,199)	—
		3,018,797	2,272,047
Change in non-cash working capital balances:			
Accounts receivable		883,913	(276,768)
Inventories		102,526	(1,594,261)
Prepays		(151,660)	(19,204)
Accounts payable and accrued liabilities		(313,112)	(137,338)
Net foreign currency loss on working capital balances		(27,711)	—
		3,512,753	244,476
Investments			
Purchase of property and equipment		(373,652)	(149,849)
Corporate acquisitions, net of cash	3	(12,870,613)	(3,407,591)
Other assets		(148,566)	(51,914)
		(13,392,831)	(3,609,354)
Financing			
Issuance of share capital		8,050,000	1,157,250
Share issue costs		(706,095)	—
Proceeds from long-term debt		7,686,585	3,000,000
Repayment of long-term debt		(4,030,969)	(670,506)
Repayment of operating loan		(1,405,032)	(108,751)
		9,594,489	3,377,993
Increase (decrease) in cash		(285,589)	13,115
Cash, beginning of year		912,515	899,400
Cash, end of year		\$ 626,926	\$ 912,515
Supplementary information:			
Interest paid in the year		\$ 429,943	\$ 152,513
Income taxes paid in the year		\$ 546,798	\$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

1. BUSINESS OF THE COMPANY

Global Railway Industries Ltd. is a manufacturer of railway maintenance equipment in Canada and the United States.

The Company's revenues depend primarily on the level of spending by the major railways, original equipment manufacturers and transit authorities. Demand for the Company's products is often characterized by large one time orders. The success of the Company is directly related to the strength of its relationships with and the economic success of a small number of large customers. Should the relationships of the Company with any of its major customers become negatively affected, the profitability of the Company may be impacted.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized below.

Basis of Consolidation

The consolidated financial statements include the accounts of Global Railway Industries Ltd., its wholly owned subsidiaries Transportation Technologies Inc. ("TTI"), Bach-Simpson Corporation ("Bach"), G&B Specialties, Inc. ("G&B"), Prime Steel Inc., ("Prime") and Rafna Industries Ltd. ("Rafna") a wholly owned subsidiary of TTI. All material intercompany transactions and balances have been eliminated on consolidation.

Inventories

Inventories of components and purchased parts are valued at the lower of cost and net realizable value, on a first in, first out basis. Finished goods are valued at the lower of cost and net realizable value; cost includes materials, labor and overhead.

Property and equipment

Property and equipment is recorded at cost and amortized using the following annual rates and methods:

Machinery	30% Declining balance
Computers	30% Declining balance
Vehicles	30% Declining balance
Furniture	20% Declining balance
Leasehold improvements	20% Straight-line

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value in which case the implied fair value of the reporting unit's goodwill is compared with its

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

Revenue Recognition

Revenue from product sales is recorded on shipment, with a provision for estimated returns recorded at that time. Engineering revenues are recognized on a percentage of completion basis as service is performed or as contractual obligations are met.

Financial Instruments

Derivative financial instruments may be used by the Company from time to time to manage its exposure to market risks relating to foreign currency exchange rates. Unrealized gains and losses on derivative instruments used as hedges are deferred and recognized in income in the period that the hedged exposure is recognized in income, which is the same period the instrument is settled.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on the differences between the financial reporting and the tax basis of assets and liabilities. These differences are then measured using substantially enacted tax rates and laws that will be in effect when these differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. The affected accounts are accounts receivable, inventories, capital assets, goodwill, future income taxes and depreciation and amortization. Actual results could differ from these estimates.

Earnings Per Share

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per common share are calculated using the treasury stock method for determining the dilutive effect of options.

Stock Based Compensation Plan

Effective January 1, 2002 the Company prospectively adopted the recommendations of the CICA with respect to the accounting for stock-based compensation and other stock-based payments. In accordance with the standards, the company elected to continue its policy that no compensation is recorded on the grant of stock options to employees and that consideration received on the exercise of such options is recorded as share capital. In addition, the standard requires a fair value based method of accounting for other stock based payments.

Foreign currency translation

Foreign operations are of a self-sustaining nature. Assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rates in effect at the balance sheet date and revenues and expenses are translated into Canadian dollars at average exchange rates for the year. Translation adjustments are reflected in the cumulative translation adjustment in shareholders' equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Monetary items denominated in foreign currency are translated into Canadian dollars using the year-end exchange rate. Non-monetary balance sheet items are translated into Canadian dollars at historical exchange rates. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the statement of earnings.

3. ACQUISITIONS

On May 1, 2003, Global acquired all of the outstanding common shares of G&B. The results of operations have been included since that time. G&B is a manufacturer of railroad signal and track products primarily in the United States.

Total consideration was \$14,042,388 including \$398,488 of acquisition costs (included in acquisition costs is \$100,000 paid to an officer of the Company) satisfied by the payment of cash and a long term payable in the amount of \$3,590,500. The purchase method of accounting was used to account for the acquisition. The total purchase price of the acquisition was allocated based on fair values as follows:

Current assets (including cash of \$1,171,775)	\$ 5,989,389
Plant and equipment	3,543,283
Goodwill	7,755,439
Total assets acquired	17,288,111
Less:	
Current liabilities	996,525
Long term debt	2,098,018
Future Income Tax	151,180
Net assets acquired	<u>\$ 14,042,388</u>

On October 7, 2002, Global acquired all of the outstanding common shares of Prime. The results of operations have been included since that time. Prime is a provider of rail car doors, replacement parts and services primarily in Canada.

Total consideration was \$3,647,141 which includes \$191,233 of acquisition costs, satisfied by the payment of cash. The purchase method of accounting was used to account for the acquisition. The total purchase price of the acquisition was allocated based on fair values as follows:

Current assets (including cash of \$239,550)	\$ 897,345
Capital assets	273,258
Goodwill	2,717,543
Total assets acquired	3,888,146
Less:	
Liabilities	241,005
Net assets acquired	<u>\$ 3,647,141</u>

4. INVENTORIES

Inventories consist of components \$3,198,453 (2002 – \$2,607,288), and finished goods \$3,614,145 (2002 – \$1,212,853).

5. OTHER ASSETS

Included in other assets is a deposit paid by Rafna of \$52,500 for two prototype units which have been made to a third party, deferred mortgage financing costs of \$64,747 related to G&B, restricted cash of \$54,946 relating to a mortgage financing in G&B, the cash surrender value of life insurance of \$56,276, and the current portion of a long term receivable due of \$5,257.

6. PLANT AND EQUIPMENT

	2003			2002		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Machinery	\$ 2,576,769	\$ 829,074	\$ 1,747,695	\$ 1,062,625	\$ 556,364	\$ 506,261
Computers	620,536	322,416	298,120	409,827	175,528	234,299
Vehicles	156,148	71,943	84,205	129,873	36,501	93,372
Furniture	241,450	99,864	141,586	65,226	26,723	38,503
Leasehold improvements	60,113	57,640	2,473	60,113	45,207	14,906
Land	91,071	—	91,071	—	—	—
Buildings	1,457,989	13,107	1,444,882	—	—	—
	\$ 5,204,076	\$ 1,394,044	\$ 3,810,032	\$ 1,727,664	\$ 840,323	\$ 887,341

7. GOODWILL

The goodwill obtained in the purchase of Bach was reduced in the current year by \$200,611 (2002 – \$427,480). The reduction resulted from the recognition of non-capital tax losses acquired in 2001 but were unrecognized at that time.

8. OPERATING LOAN

The operating loan is repayable on demand to a maximum of \$3,500,000. Interest of prime plus 0.5% is payable monthly. The maximum amount of this revolving line of credit is secured by the same security agreement and pledges that secure the bank term loan as described in Note 9.

9. LONG-TERM DEBT

	2003	2002
Bank term Loan	\$ 5,196,309	\$ 2,833,334
Acquisition financing	3 2,376,907	—
PEDFA loan	1,101,113	—
Priveq II Limited Partnership	—	1,000,000
Other	217,500	35,060
Total long term debt	8,891,829	3,868,394
Less:		
Current portion	2,672,238	1,000,000
	\$ 6,219,591	\$ 2,868,394

9. LONG-TERM DEBT (continued)

The debenture from Priveq II Limited Partnership ("Priveq") bears interest at bank prime plus 3% per annum, with a minimum set rate of 7.5% and a maximum set rate of 12% per annum. Interest paid on the debenture in the current year is \$51,294 (2002 – 90,472). The debenture was paid out in full in September, 2003.

The bank term loan of USD \$4,007,951 bears interest at bank prime plus 1% per annum. Interest paid on the term loan in the current year is \$278,329 (2002 – \$27,199). The loan is repayable in equal monthly installments of USD \$ 77,253 plus interest. The bank term loan is secured by a general security agreement, guarantee by subsidiaries and assignment of insurance.

The Pennsylvania Department of Community and Economic Development ("PEDFA") loan of USD \$849,297 bears interest at 1% to 1.5%. Interest paid on the loan since May 1, 2003 was \$15,093. The loan is repayable in equal monthly installments of USD \$ 8,333 plus interest. The loan is secured by real estate owned by G&B (see note 16).

The acquisition financing payable of USD \$1,833,336 does not bear interest and is not secured. The obligation is payable in equal monthly installments of USD \$83,333 per month.

At December 31, 2003 the Company has provided letters of credit to a customer aggregating \$365,000 of which nil was drawn.

The minimum long term debt payments payable are as follows:

2004	\$ 2,672,238
2005	2,647,492
2006	1,427,328
2007	1,331,547
2008	518,345
2008 and thereafter	294,879
	<u>\$ 8,891,829</u>

10. SHARE CAPITAL

Authorized

Unlimited number of common voting shares

Unlimited number of preferred, redeemable shares

	2003		2002	
	Issued	Amount	Issued	Amount
Common shares	6,345,672	\$ 3,368,354	5,626,514	\$ 2,211,104
Options exercised	150,000	300,000	256,000	157,250
Warrants exercised	100,000	200,000	463,158	1,000,000
Private Placement	3,775,000	7,550,000	–	–
Private Placement share issue costs (net of future tax of \$225,000)	–	(481,095)	–	–
	<u>10,370,672</u>	<u>\$ 10,937,259</u>	<u>6,345,672</u>	<u>\$ 3,368,354</u>

10. SHARE CAPITAL (continued)

The Company has issued share options to officers, directors, employees and consultants to purchase common shares. Changes in the number of options, with their weighted average exercise prices, are summarized below:

	2003		2002	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	428,000	\$ 2.45	479,000	\$ 1.45
Granted	520,000	2.07	295,000	2.46
Exercised	(150,000)	2.00	(256,000)	0.61
Cancelled or expired	(273,000)	2.47	(90,000)	2.50
Balance end of year	525,000	\$ 2.20	428,000	\$ 2.45

The Company has issued stock options to officers, directors, employees and consultants to purchase common shares subject to the following conditions.

Exercise Period	Options Issued	Exercise Price
Prior to June 2004	100,000	\$ 2.00
Prior to May 2005	110,000	2.50
Prior to September 2006	75,000	2.50
Prior to February 2007	20,000	2.50
Prior to August 2007	25,000	2.00
Prior to January 2008	195,000	2.00
	<u>525,000</u>	

Pursuant to a financing arrangement the Company issued two warrant certificates.

The first certificate (the "A warrants") entitles Priveq to acquire up to 600,000 common shares of the Company at an exercise price of \$2.50 per A warrant for a five-year period commencing June 30, 2000.

The second warrant certificate (the "B warrants") entitles Priveq to acquire up to 500,000 common shares of the Company at an original exercise price of \$2.60 per warrant for a two year period commencing June 30, 2000. During 2002 Priveq exercised 463,158 outstanding B warrants for proceeds of \$1,000,000 to the Company. The remainder of the B warrants were cancelled.

Additional Fair Value Disclosure

If the fair value method had been used for options granted commencing January 1, 2002, the Company's net earnings and earnings per share for the years ended December 31, 2003 and 2002 would approximate the following pro forma amounts:

		2003	2002
Net Income	As reported	\$ 2,702,275	\$ 1,484,487
	Pro forma	2,453,659	1,396,900
Basic earnings per share	As reported	0.30	0.23
	Pro forma	0.28	0.22
Diluted earnings per share	As reported	0.29	0.23
	Pro forma	0.27	0.22

The fair value of each stock option grant on the date of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions and results:

	2003	2002
Expected option life (years)	2.75	0.95
Risk-free interest rate	2.9%	4.0%
Expected stock price volatility	42%	32%
Expected annual dividends per share	\$0	\$0

11. PER SHARE INFORMATION

Basic earnings per share are calculated using the weighted average of shares outstanding during the period. Diluted earnings per share are calculated to reflect the dilutive exercise of outstanding share options and warrants.

	2003			2002		
	Net Earnings	Shares	Per share Amount	Net Earnings	Shares	Per Share Amount
Basic	\$ 2,702,275	8,916,836	\$ 0.30	\$ 1,484,457	6,345,672	\$ 0.23
Effect of Options	—	213,399	—	—	26,500	—
Effect of Warrants	—	93,243	—	—	—	—
Diluted	\$ 2,702,275	9,223,478	\$ 0.29	\$ 1,484,457	6,372,172	\$ 0.23

In 2002 warrants to purchase 600,000 common shares and options to purchase 401,500 common shares at a price of \$2.50 per share were not included in the computation of diluted earnings per share because the warrants' and options' exercise prices were greater than the average market price of the common shares. The remaining 26,500 options of the total options outstanding at year end are in the money but due to their low number have a negligible effect in calculating diluted earnings per share.

12. INCOME TAXES

The income tax provision differs from income taxes, which would result from applying the expected income tax rate to net income before income taxes. The difference between the computed "expected" income tax expense and the actual income tax provision are summarized as follows:

	2003	2002
Earnings (loss) before income taxes	\$ 3,726,275	\$ 2,133,705
Expected income tax rate	32%	32%
Computed "expected" income tax expense (recovery)	1,192,408	682,786
Difference resulting from:		
Non-taxable foreign exchange gain	(116,832)	–
Non-deductible items and other	(81,576)	(33,538)
Large Corporation Tax	30,000	–
Provision for income taxes	\$ 1,024,000	\$ 649,248

The expected income tax rate reflects the combined Federal and Provincial (Quebec and Ontario rate) for manufacturing and processing companies.

The component parts of the future tax asset (liability) are as follows:

	2003	2002
Future income tax assets:		
Goodwill	\$ –	\$ 11,879
Share issuance costs	188,000	81,409
Loss carry forwards	60,480	13,965
Less Valuation Allowance	(60,480)	–
	188,000	107,253
Future income tax liabilities:		
Capital assets	(205,874)	(22,558)
Unrealized Foreign Exchange Gain	(116,000)	–
Net future tax asset (liability)	\$ (133,874)	\$ 84,695

A subsidiary has non-capital losses of approximately \$60,000, which can be carried forward to reduce future taxable income. The losses if not utilized will expire on December 31, 2010. The future benefit related to these losses has not been recognized in the financial statements.

13. FINANCIAL INSTRUMENTS

The financial instruments consist of accounts receivable which will result in future cash receipts as well as an operating loan, accounts payable and accrued liabilities, income taxes payable and long-term debt which will result in future cash outlays.

13. FINANCIAL INSTRUMENTS (continued)

Credit Risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience difficulty and be unable to fulfill their obligations. The Company is exposed to financial risk that arises from the credit quality of the entities to which it provides services.

The majority of the Company's customers consist of large companies from the railway industry, who are in good credit standing, therefore minimizing credit risk.

Interest Rate Risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument would fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates used on their financial instruments.

The Company manages the Foreign exchange risk and interest rate exposure of its US dollar debt through the use of foreign currency and interest rate derivatives. At December 31, 2003 there is one interest rate derivative contract outstanding for a five year period with a fair value of \$9,987.

Fair Values

The carrying values of the financial instruments noted above approximate their fair values.

The carrying values for long-term receivable and long-term debt approximate their fair values.

Foreign Exchange Rate Fluctuation

Exposure to changes arising from fluctuations in exchange rates between Canadian and U.S. dollars on future revenue streams and certain U.S. dollar expenditures has been managed by selling forward U.S. dollars at fixed rates in future periods. At December 31, 2003, the Company had entered into foreign exchange contracts to sell U.S. \$2,500,000 at exchange rates ranging from 1.3137 to 1.3429. At December 31, 2003 the unrealized gain on forward foreign currency exchange contracts was \$ 80,650.

14. SEGMENTED INFORMATION

The Company's operations are based primarily on the manufacture and sale of railway maintenance equipment. The following is a summary of the Company's sales, assets and goodwill.

	2003			2002		
	United States	Canada	Total	United States	Canada	Total
Sales	\$18,008,994	\$ 8,005,658	\$26,014,652	\$ 7,374,983	\$ 5,243,343	\$12,618,326
Plant and equipment	2,895,920	914,112	3,810,032	—	887,341	887,341
Goodwill	\$ 7,755,439	\$ 3,555,858	\$11,311,297	\$ —	\$ 3,756,306	\$ 3,756,306

15. COMMITMENTS

The minimum rentals payable under long-term operating leases, exclusive of certain operating costs for which the Company is responsible are approximately as follows:

2004	\$	477,941
2005		456,760
2006		330,153
2007		247,766
2008		205,023

16. SUBSEQUENT EVENTS

- a) Subsequent to year end, the Company announced the completion of a \$12 million financing agreement to issue 3,428,572 common shares of the Company at a price of \$3.50 per share. The private placement was completed on January 27, 2004.
- b) On April 5, 2004 Global acquired all of the manufacturing assets and inventories of YSD Industries Inc. for total consideration of USD \$2.5 million. The asset purchase was funded with cash.
- c) Subsequent to year end, the PEDFA loan was paid out in full with cash.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's basis of presentation.

DIRECTORS

Michael Kohut
President and Chief Executive Officer
Global Railway Industries Ltd.

Bradley W. Ashley, Chairman
Managing Partner
Priveq Capital Funds

Dale Owen
Partner
Owen Mayer Kirzinger

Tim Tycholis
Businessman

Tim Sanderson
President
Rafna Industries Limited

Dave Horbay
Retired
Canadian National Railway Company

Phil Ogden
Retired
Norfolk Southern Corporation

OFFICERS

Michael Kohut
President and Chief Executive Officer

Dale Owen
Chief Financial Officer

Greg Peterson
Secretary

CORPORATE OFFICE

Global Railway Industries Ltd.
Suite 12, 611 - 10 Avenue S.W.
Calgary, Alberta T2R 0B2
Phone (403) 262-6501
Fax (403) 262-6563
Email info@globalrailway.com
www.globalrailway.com

Bankers
TD Canada Trust
Calgary, Alberta

Auditors
KPMG LLP
Calgary, Alberta

Legal Counsel
Gowling Lafleur Henderson, LLP
Calgary, Alberta

Transfer Agents
Computershare Trust Company of Canada
600, 530 - 8 Avenue S.W.
Calgary, Alberta T2P 3S8
Phone 1 800 564-6253

Stock Exchange
Toronto Stock Exchange
Symbol: GBI

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Friday, June 18, 2004 at the Fairmont Palliser Hotel, 133 - 9th Avenue S.W., Calgary, Alberta, at 1:00 p.m., (MST).

